JSI John Staurulakis
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WC 06-183

September 21, 2006

By Hand Delivery

Mr. Albert Lewis,
Acting Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

Re: Duo County Telephone Cooperative, Inc. – Study Area Code 260401

Dear Mr. Lewis:

On behalf of Duo County Telephone Cooperative, Inc. ("Duo County"), John Staurulakis, Inc. ("JSI") respectfully submits the attached letter from Mr. Daryl L. Hammond Vice President/Chief Financial Officer, requesting that the Commission grant Duo County authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, Other noncurrent assets.

Please direct any inquiries or requests regarding Duo County's request to the undersigned.

Sincerely,

Scott Duncan

Scott Duncan
JSI Staff Director-Regulatory Affairs
301-459-7590
sduncan@jsitel.com

Attachments

Duo County Telephone Cooperative Inc.
P O Box 80, 2150 North Main Street
Jamestown, KY 42629
(270) 343-3131

September 21, 2006

Mr. Albert Lewis,
Acting Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

Re: Duo County Telephone Cooperative, Inc. – Study Area Code 260401

Dear Mr. Lewis:

By this letter, Duo County Telephone Cooperative, Inc. ("Duo County") respectfully requests that the Commission grant Duo County authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, Other noncurrent assets. Duo County is a rate-of-return incumbent local exchange carrier ("ILEC") and participates in the National Exchange Carrier Association ("NECA") common line and traffic sensitive pools. Duo County serves approximately 13,500 lines in rural Kentucky. As a pool participant, Duo County is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5 and bills rates pursuant to the tariff. Duo County engages John Staurulakis, Inc. ("JSI"), *inter alia*, to assist in completing its annual cost studies for purposes of reporting to the NECA pools. Duo County's rate base affects determination of its revenue requirement for each of the NECA pools.

<u>Background</u>

Duo County's request is similar to that made by Roosevelt County Rural Telephone Cooperative Inc. (Roosevelt) in a letter to the Wireline Competition Bureau dated October 25, 2004.[1] In its letter, Roosevelt requested Commission approval to include in its rate base the interstate portion of prepaid post-retirement health benefits recorded in

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[1] See letter from Scott Arnold, General Manager, Roosevelt County Rural Telephone Coop., Inc. dated October 25, 2004.

Account 1410. On March 14, 2006, the Commission released an order granting Roosevelt's request.[2]

As a benefit to its employees, Duo County offers post-retirement health benefits. The Commission and industry generally refer to such benefits as "other post-retirement employee benefits" or "OPEBs." This benefit is funded through a pre-funding trust sponsored by the National Telephone Cooperative Association ("NTCA"). As of December 31, 2005, Duo County's audited financial statements reflect an OPEB-related prepaid balance in Account 1410 of $810,533, of which $780,187 represents prepaid post-retirement health benefits. Following is a summary of the prepaid post-retirement health benefits portion of the combined SFAS 106[3] disclosure amount of $810,533.

Summary of 12/31/2005 Duo County Accumulated Post-Retirement Benefit Obligation ("APBO") Applicable to Health Benefits

	12/31/2005 Annual Report Balance
Accumulated Postretirement Benefit Obligation (APBO)	$ 4,696,892
Less: Unamortized Initial Obligation	(386,013)
Unamortized Actuarial Losses	(1,602,865)
Net Accumulated Post-Retirement Benefit Obligation	2,708,014
Plan Assets at Fair Value	3,488,201
Prepaid APBO	$ (780,187)

Request

In accordance with section 65.820(c) of the Commission's rules, Duo County seeks approval to include the interstate portion of the prepaid APBO applicable to health benefits in its rate base. For the pending 2005 cost study, the addition to the average rate base would be approximately $800,000 based on beginning and ending 2005 balances. The estimated interstate access portion of $800,000 for the 2005 cost study year would be $228,800 (based on the 2004 cost study 28.6 interstate factor for Account 1410). The estimated interstate return on the interstate portion of the prepaid APBO would be

2 Roosevelt County Rural Telephone Cooperative, Inc. Petition to Include the Interstate Portion of a Prepaid Accumulated Post-Retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base, WCB/Pricing 05-31, Order, FCC 06-31 (rel. March 14, 2006) (*Roosevelt OPEB Order*).

3 *Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.*

$25,650 at the current 11.25% interstate rate of return.[4] Based on its relatively small size, $25,650 annually is significant to Duo County. However, Duo County believes any impact on overall NECA pool revenue requirements or universal service funding would be *de minimis*.

Section 65.820(c) of the Commission's rules allows inclusion of amounts accounted for in Account 1410, "only to the extent that they have been specifically approved by this Commission for inclusion."[5] In its 1997 *Part 65 OPEB Treatment Order*, the Commission established that where a carrier "can show that any of its assets recorded in Account 1410 (including prepaid OPEB) meet the used-and-useful standard, we will allow that asset to be included in the interstate rate base."[6] Thus, Duo County requests that the Commission grant authority pursuant to Section 65.820(c) to Duo County for inclusion of the prepaid post-retirement health benefits residing in Account 1410, Duo County provides the following to establish that its prepayments meet the used-and-useful standard.

As communicated to Duo County by the trustee for its OPEB plans, NTCA, prefunding serves to reduce annual expense for OPEBs. A copy of the trustee's letter is attached. As a rate-of-return carrier, the interstate portion of the reduced expenses will reduce Duo County's future interstate revenue requirements and, in turn, the rates paid by interstate access customers. In the *Roosevelt OPEB Order* the Commission found that Roosevelt's prepaid post-retirement health benefits met the used-and-useful standard and granted authority to Roosevelt to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made. Duo County's situation with respect to prepaid post-employment health benefits recorded in Account 1410 is reflective of Roosevelt's circumstances. Therefore, Duo County believes that it has satisfied the used-and-useful standard for inclusion of the interstate portion of prepaid post-retirement health benefits in the rate base.

Based on meeting the used-and-useful standard with respect to its prepayment of post-retirement health benefits, Duo County respectfully requests that the Commission, as it did in response to Roosevelt's request, grant Duo County authority to include in its rate

4 Because Duo County is a cooperative, the company does not pay income taxes on its interstate access revenue and thus the interstate impact does not include any gross-up for income taxes.

5 47 C.F.R. § 65.820(c).

6 *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base*, CC Docket No. 96-22, AAD 92-65, Report and Order, 12 FCC Rcd 2321, FCC 97-56 (Rel. Feb 20, 1997) (*Part 65 OPEB Treatment Order*) at par. 12.

base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made.

Please direct any requests for information or questions to:

John Staurulakis, Inc.
Scott Duncan, Staff Director-Regulatory Affairs
7852 Walker Drive, Suite 200
Greenbelt, MD 20770
301-459-7590
sduncan@jsitel.com

Sincerely,

Daryl L. Hammond
Vice President/Chief Financial Officer
Duo County Telephone Cooperative

Attachments

NTCA

The Voice of Rural Telecommunications

April 6, 2006

Memorandum

TO: Daryl Hammond

FROM: Lisa Altman, Sr. FAS 106 Technician

SUBJECT: Duo County Telephone

On April 4, 2006, we discussed the FAS 106 liability and how that liability is impacted by the 106 Prefunding in which Duo County Telephone participates. This prefunding does play a partial role in lessening the overall FAS 106 liability of the company. This reduction of the liability manifests itself in several ways:

1. The Expected Rate of Return on Assets (determined by Lake Consulting Inc., the FAS 106 Program) is historically set as to what the return would be over a 30-year period depending on the investment philosophy of the prefunding Trusts. The FAS 106 statement requires that we use the Expected Return on Assets when performing the FAS calculation. This Expected Return on Assets is included in the Net Periodic Postretirement Benefit Cost section of the FAS 106 valuation and in this calculation the expected return reduces the liability which in return reduces the annual expense for that particular year.

2. The Total Assets on deposit as of the first day of the year are also included in the calculation process. The Assets reduce the Accumulated Postretirement Benefit Obligation (APBO) creating the Unfunded APBO figure. This Unfunded APBO has several areas of impact, including interest calculations, the Accrued/Prepaid figure and the Net Loss/Gain Calculations.

NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
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3. The prefunding account also has a direct impact on the Financial Statements of the company. As the Assets on deposit accrue earning (either negative or positive), the company would have this asset to offset the liability that would be accruing on the financial statements.

These are a few of the advantages of FAS 106 Prefunding and how they impact the FAS 106 liability being reflected on the financial statements. If you have further questions, do not hesitate to contact me by phone at (828) 255-2972 or by e-mail at lbennie-altman@ntca.org.

LBA